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RUEHBU/AMEMBASSY BUENOS AIRES 5255  
RUEHME/AMEMBASSY MEXICO 2108  
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RUEHMN/AMEMBASSY MONTEVIDEO 7191  
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UNCLAS SECTION 01 OF 05 BRASILIA 000089

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E.O. 12958:N/A  
TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [BR](#)  
SUBJECT: BRAZIL: LAUNCH OF ECONOMIC PARTNERSHIP DIALOGUE

¶1. (SBU) SUMMARY: WHA Assistant Secretary Tom Shannon and EB Assistant Secretary Dan Sullivan, joined by Treasury Deputy Assistant Secretary for Latin America Brian O'Neill, led the US delegation to the successful December 13 Economic Partnership Dialogue (EPD) with Brazil's Ministry of External Affairs. Undersecretary for Economic and Technological Affairs Roberto Azevedo headed the Brazilian delegation. The discussion focused largely on positive, forward-looking areas for potential expanded economic cooperation, including OECD, innovation (for example, scientific cooperation and IPR), infrastructure and investment, agriculture, import safety, civil aviation, telecommunications, and social inclusion. Outcomes included: agreement to exchange information on respective US and Brazilian bilateral investment treaty (BIT) principles, and compare similarities and differences at the next meeting, with the possibility of future BIT negotiations; a US offer to host a Brazilian official at USOECD to see how we manage the range of OECD issues; agreement to pursue with relevant agencies setting a date for the next Consultative Committee on Agriculture meeting; agreement to pursue a MCC visit to Brazil to explore further cooperation on social inclusion issues; agreement to exchange information on import safety regulations and processes and to work together on this issue in the future; and a welcoming of further discussions by relevant agencies of issues such as air services and telecommunications equipment standards mutual recognition. Brazil pressed for government action to bring our textile sectors into contact and was asked to develop a specific proposal for consideration. The exchange overall was productive, setting the stage for enhanced cooperation with MRE on bilateral, regional, and global economy policy issues. The public EPD joint statement is available on our website: <http://www.embaixada-americana.org.br/> and on Itamaraty's site: [www.mre.gov.br](http://www.mre.gov.br). END SUMMARY

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Overview  
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¶2. (U) U/S Azevedo welcomed the first meeting of the EPD, noting that avoiding difficult issues or leaving them at the technical level ensures they are not resolved. He added that more "problems" between Brazil and US is a sign of the increasing substantive breadth and importance of the relationship. A/S Shannon and A/S Sullivan noted that the EPD builds on the successful partnership between the US and Brazil on biofuels, and that the key will be to remain open and flexible as the discussions progress. All agreed

the EPD will focus on results, and A/S Shannon emphasized in particular that the EPD should impart a strategic vision that our broader economic dialogue should achieve greater social inclusion.

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OECD  
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13. (SBU) Azevedo noted that Itamaraty is still at the beginning of a process to understand how the OECD works in practice. The real extent of the OECD "acquis" is not clear, for example, with different OECD commentators offering different answers regarding the extent of accession requirements. MRE finds disconcerting that OECD Secretariat officials seem to reach out to specific technical

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ministries in capitals, which is counter to MRE's desire in general to oversee and coordinate international interactions across portfolios. In addition, Azevedo sought US feedback on his perception that OECD seems to be a group of countries that already think similarly and have similar backgrounds, and could usefully change to a "more representative, diverse perspective" by incorporating developing country viewpoints. As an example, Azevedo noted OECD export credit discussions, saying there are other ways to mitigate risks based on other countries' experiences that could be a useful part of the conversation. That said, he noted the value of OECD in this area, saying OECD was able to accomplish what would have taken ten years in the WTO.

14. (U) A/S Sullivan noted the United States welcomes Brazil's interest in learning more about the OECD and is ready to engage at whatever pace Brazil desires. He underlined that USG goals include broadening OECD participation beyond mainly European membership. A/S Shannon noted international economic institutions must incorporate new powerful global economies. A/S Sullivan provided an

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overview of the US OECD budget process and the internal USG coordination process. A/S Sullivan offered to host a Brazilian official at USOECD and to design a productive program for the official to meet OECD Ambassadors and observe how USOECD manages issues for a few weeks. Azevedo expressed a strong interest in accepting the U.S. offer.

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INNOVATION  
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15. (SBU) Participants highlighted the importance of initiatives like the Innovation Summit and the CEO Forum and agreed to encourage follow-up and new ideas in this area. A/S Sullivan also noted productive scientific exchanges and also pressed on the need for increased intellectual property rights protection, noting the critical link between IPR and innovation and investment. He was struck in his IP meeting with Brazilian industry in Sao Paulo (septel) that the Brazilian business community cared deeply about IPR, both domestically and because they are now competing internationally. Azevedo acknowledged new inventions will not happen absent IPR protection and stated that Brazil and the US do not diverge on the need to protect IP. Instead, the two countries diverge on penalties, where the US wants strict penalties and Brazil still has issues in its developing court system that go far beyond IPR protection issues, in Azevedo's view. Azevedo underlined that the concept of economic sanctions in international agreements is frightening to Brazil because the country does not know if it can meet such standards. He emphasized that Brazil is not going to agree to international standards it knows it can not meet if agreements also contain sanctions provisions. A/S Shannon noted DOS is working with OSTP on using funding to spur innovation, such as linking academic and research centers, and USG hopes to release a proposal soon.

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INFRASTRUCTURE AND INVESTMENT  
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16. (SBU) Treasury DAS O'Neill noted three phases are needed for infrastructure investment to occur: (1) project identification, (2) project execution, and (3) financing. The second area is Brazil's challenge. Projects can be executed by the public sector only (for socially necessary projects that may not be commercially viable), by the private sector only, and as public-private projects. Public sector projects may need an initial infusion of capital or operating subsidies. For public-private projects, the subsidies need to be explicit. O'Neill noted that Brazil's constraints are institutional weaknesses in project assessment and development within the sectoral ministries, as well as risks associated with the regulatory structure and the judicial system. Some of these challenges are greater on transnational projects. Azevedo accepted this assessment and was open to ideas to ameliorate the situation.

17. (SBU) O'Neill described technical assistance offered by USG agencies as well as the World Bank and IDB to increase capacity in project assessment and design. In the short-term, expertise can be contracted while in-house expertise is developed. "We (USG) have thought of offering countries in the region a task force of experts who can reside in a ministry for a while to help with bringing projects to fruition." For the longer-term, the World Bank and IDB can create a sector-focused loan aimed at strengthening institutional capacity. The loan could be used for training and payment of expenses related to pre-feasibility, engineering, and environment impact studies. Azevedo proposed possibly working together on a pilot project under the Dialogue. MRE would try to develop and to engage other ministries who, while probably not receptive to admitting any deficiency, would probably welcome technical assistance. O'Neill cautioned convincing the private sector to participate would remain a challenge due to institutional risk and that risk is even higher if cross-border projects are under consideration.

18. (SBU) Regarding investment in general, Azevedo noted Brazilian outbound investment exceeded inbound for the first time in 2007 and is projected to do so again in 2008. Recognizing the executive's previous poor experience with BITs not ratified by the Brazilian Congress, Azevedo said the government is proceeding with caution,

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but looking to negotiate new investment agreements based on Brazilian interagency agreed principles, "particularly on our continent." A/S Sullivan noted USG had also in recent years worked through an interagency process to design a new US model BIT and suggested Brazil and US exchange and compare their respective BIT principles and at the next EPD meeting discuss where the US and Brazil BIT principles are the same and where they differ. A/S Sullivan also noted that given the extent of Brazilian outward FDI that Brazil now had many offensive interests that should make BITs more compelling for Brazil, both as a spur to inbound FDI and as a way to protect Brazilian outbound investment. Azevedo emphasized Brazil was cautious regarding arbitration, having seen decisions go the wrong way on pipeline investments in the past. While new Brazilian investment negotiations may better balance offensive and defensive interests than in the past, Azevedo stated, "realistically, from BITs I have seen [the US] recently do, I think there really could be insurmountable issues." Azevedo suggested perhaps US and Brazil could approach future BIT negotiations by breaking down the issues and agreeing in parts gradually.

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Cooperation on Sectors  
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19. (SBU) Azevedo explained that MRE would like to work with USG to bring our textile sectors together so they could discuss ways to exploit third-country markets and design joint investments. A/S Sullivan cautioned the issue was sensitive. Azevedo explained the textile sector was selected because the companies already talk to each other. The Brazilian delegation members proposed to send DoS an expanded description of their proposal. A/S Sullivan emphasized the importance of having the US Department of Commerce play the lead role in responding to such an initiative given its expertise and knowledge of the US textile industry.

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Agriculture  
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¶10. (SBU) Azevedo urged the Consultative Committee on Agriculture meet soon to discuss working together to develop third country markets and on promoting a deeper dialogue on SPS issues both countries face in third markets. A/S Sullivan noted USDA is engaged on finding a date for the next CCA. He raised the importance of working together on agricultural biotechnology and noted the joint 2005 World Food Prize award to Brazilian and American scientists. Given Brazilian inter-agency battles on this issue, Azevedo cautioned that Brazil was unlikely to play a high-profile role in promoting acceptance of GMO crops internationally. He welcomed further discussion of this topic in future EPD discussions but suggested moving it to the "innovation" section to lower its profile.

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IMPORT SAFETY  
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¶11. (SBU) A/S Sullivan briefed on the September 10 import safety recommendations to President Bush and expressed interest in expanding cooperation with Brazil on import safety issues to ensure consumer protection while preserving trade flows. Azevedo noted consumer safety is an area that has developed enormously in Brazil in recent years, and remains a growing concern. He stated that Brazil has stricter standards than its neighbors, making regional negotiations more difficult. He welcomed further information on US initiatives and suggested perhaps eventually Brazil and the US could adopt some common standards and develop cooperation with third countries.

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CIVIL AVIATION  
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¶12. (U) Commenting on the recently launched US-Brazil civil aviation services negotiations, Azevedo indicated Brazilian-US civil aviation negotiations are a step-by-step process, given that Brazilian companies need time to adapt and respond to market opportunities. A/S Sullivan noted, at the same time, neither side would want to

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lose the momentum of the potentially promising negotiations. The Ambassador urged -- and participants agreed -- there would be another negotiating session well before the end of 2008 as indicated in the Memorandum of Conversation signed by both parties at the conclusion of December 5-6 discussions in Rio.

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TELECOMMUNICATIONS  
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¶13. (U) A/S Sullivan reviewed the potential for bilateral cooperation, particularly in Africa. MRE Office Director for Services and Investment Ronaldo Costa Filho noted the Brazilian regulatory agency (ANATEL) had experience assisting developing countries interested in setting up their own regulatory agencies. A/S Sullivan indicated potential US-Brazil mutual recognition agreements on telecommunication equipment held great promise. Azevedo agreed.

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Social Inclusion  
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¶14. (U) Azevedo promoted further dialogue between experts in Brazil's Bolsa Familia and in US MCC in the future, characterizing the proposal as a win-win exchange of views, experiences, short-comings and lessons learned that would help both sides address flaws and maximize opportunities in learning from one another. A/S Shannon agreed and noted this initiative could be a concrete success under the Dialogue. A/S Shannon stressed that both sides need to highlight that economic growth is about social inclusion and is all about allowing people to access their own economy. He underlined

this is a new and useful way to think about economic growth. A/S Sullivan noted the possibility of coordination in third-country assistance. Using Mozambique as an example where MCC is engaged, A/S Sullivan suggested different donors can look at ways to complement each other's assistance. Azevedo agreed and noted that Haiti would be an obvious example in Brazil's view.

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INTERNET GOVERNANCE  
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¶15. (U) Jose Hansem, a staff member of the MRE Science and Technology office, provided a lengthy review of Brazil's disagreements with the United States regarding internet governance. A/S Sullivan thanked Brazil for hosting the November Internet Governance Forum. He noted US focus on the security of the internet and the internet's potential as a force for democracy and economic growth. The internet has functioned well to date. USG is open to receiving other countries' feedback. Azevedo proposed perhaps a Brazilian team could travel to the United States to discuss these issues further and A/S Sullivan stated USG would be happy to receive.

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CACHACA  
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¶16. (U) Philip Fox Drummond Gough of MRE's Market Access office reviewed Brazil's request to change cachaca (a sugar-based alcoholic beverage) from "rum" to "cachaca." A/S Sullivan noted the Federal Register Notice with the proposed change would be published in early January, followed by a comment period. Azevedo was pleased to hear of this progress.

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ASSESSMENT  
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¶17. (SBU) The EPD meeting was a successful step in expanding and deepening cooperation with MRE on economic policy issues. The group agreed to meet again within six months. Progress on specific action items identified in the Dialogue will go far to ensure the next session is equally productive.

¶18. (U) DELEGATION LISTS:  
MRE:

Emb. Roberto Azevedo -U/S Economic and Technology Affairs  
Min. Carlos Marcio Cozendey - A/S Economic Affairs

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Min. Carlos Henrique Moojen de Abreu - Brazil Embassy, Washington  
Min. Susan Kleebank - OffDir Economic Organizations  
Min. Flavio Damico - OffDir Agriculture and Commodities  
Min. Ronaldo Costa Filho - OffDir Services and Investment  
Cons. Joco Tabajara de Oliveira Jr- OffDir US/Canada desk  
Sec. Philip Fox Drummond Gough - Market Access  
Sec. Ricardo Jos Lustosa Leal - Trade Promotion Programs  
Sec. Marcelo Salum - Economic Organizations  
Sec. Jos Victor Hansem - Science and Technology  
Sec. Joco Carlos Storti - Intellectual Property  
Sec. Matheus Carvalho - Social Themes

US:

Thomas A. Shannon, A/S WHA  
Daniel S. Sullivan, A/S EEB  
Brian D. O'Neill, DAS, Western Hemisphere, Treasury Department  
William E. Craft, DAS, EEB/TPP  
Lisa Kubiske, Director, WHA/EPSC  
Alexei Monsarrat, Senior Advisor to Assistant Secretary Sullivan  
Matthew Rooney, Deputy Director, WHA/EPSC  
David Schnier, Brazil Desk Officer

Ambassador Clifford M. Sobel  
Tara Feret Erath, EconCouns  
Rebecca Armand, Principal Commercial Officer, FCS

Delegation has cleared this message.  
SOBEL